

Message Text

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 4312

INFO USLO PEKING

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EWTD, CH, US, HK

SUBJ: PRC DESIGNATES CARPET SALES AGENT IN HONG KONG

REF: HONG KONG 1998; HONG KONG 3234

1. PEKING'S INCREASINGLY VARIED USE OF HONG KONG'S CAPITALIST ENTREPRENEURS TO BOOST ITS FOREIGN EARNINGS HAS TAKEN ANOTHER NEW STEP IN THE PRC'S RECENT APPOINTMENT OF THE FIDELITY MERCANTILE CO. TO ACT AS ITS "CONSULTANT AND ADVISER". ACCORDING TO AN ANNOUNCEMENT SENT TO PROSPECTIVE BUYERS BY FIDELITY MERCANTILE, THE HONG KONG COMPANY HAS BEEN COMMISSIONED BY PEKING TO (1) SELL CARPETS ON BEHALF OF THE PRC FOREIGN TRADE CORPORATION HANDLING CARPETS, CHINA NATIVE PRODUCE AND ANIMAL BY-PRODUCTS CORPORATION (CHINA TUSHU); (2) FACILITATE SALES BY RECEIVING FOREIGN BUSINESSMEN AND, WHEN NECESSARY, HANDLE SUCH DETAILS AS PRODUCT ORDERING AND AND FINANCING (ADVANCING PAYMENT TO CHINA TUSHU); (3) PREPARE SHORT AND LONG-TERM MARKETING SURVEYS FOR CHINESE CARPETS, CONCENTRATING ON THE US AND EUROPEAN

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MARKETS, (4) LAUNCH A SALES PROMOTION ADVERTISING CAMPAIGN AIMED AT SPECIALIZED CARPET IMPORTERS AND FOREIGN CHAIN DEPARTMENT STORES; (5) ESTABLISH A MODERN MARKETING OFFICE IN HONG KONG THROUGH WHICH FOREIGN BUYERS MAY CONVENIENTLY SELECT STYLES AND PATTERNS AND MAKE SELECTIONS.

2. ACCORDING TO THE ANNOUNCEMENT AND TO MR. Y.Y. WONG,

MANAGING DIRECTOR OF FIDELITY MERCANTILE, WHO SPOKE WITH CONGENOFF ON MARCH 28, PEKING IS OFFERING THE FOLLOWING AS REMUNERATION FOR FIDELITY MERCANTILE'S SERVICES: (1) FIDELITY MERCANTILE IS PERMITTED TO QUOTE PRICES IDENTICAL TO THOSE CHARGED BY CHINA TUSHU BRANCHES IN CHINA; INDEED, PEKING REQUESTED THAT NOTHING BE ADDED TO THE CHINA-DOMESTIC PRICE. (2) PEKING WILL PAY FIDELITY MERCANTILE A 2 PERCENT COMMISSION ON SALES. (3) FIDELITY MERCANTILE MAY EARN COMMISSION FROM BUYERS FOR PERFORMANCE OF SUCH SERVICES AS INSPECTION AND FINANCING IF THE BUYER DOES NOT WISH TO HANDLE THESE MATTERS HIMSELF.

3. ACCORDING TO Y.Y. WONG, WHO MET WITH PRC TRADE OFFICIALS OFTEN DURING NEGOTIATIONS CONCERNING THE PRESENT DEAL, PEKING HAS RESOLVED STPE UP OVERSEAS SALES OF CHINESE CARPETS VIS HONG KONG. PEKING HOPES TO INCREASE TOTAL EXPORTS BY 100 PERCENT TO SOME \$100 MILLION IN 1977. IN 1975 CARPETS AND RUGS ACCOUNTED FOR ABOUT \$40 MILLION IN SALES. PEKING HAS ALREADY SHIPPED A LARGE INVENTORY (PERHAPS 10,000 PIECES) OF CARPETS TO HONG KONG. "THE INVENTORIES NOW AVAILABLE IN HONG KONG ARE ESTIMATED TO BE MORE THAN ADEQUATE TO MEET ANY AMOUNT OF ORDERS FROM ALL PARTS OF THE WORLD", THE ANNOUNCEMENT DECLARES. THE PRESENCE OF THIS INVENTORY IN HONG KONG WILL MAKE POSSIBLE PROMPT DELIVERIES. SHIPMENT TIME TO THE US WEST COAST IS GIVEN AS 18-21 DAYS; TO WESTERN EUROPE, 27-35 DAYS; AND TO THE US EAST COAST 33-38 DAYS.

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4. COMMENT: THE ARRANGEMENT WITH FIDELITY MAERCANTILE MARKS A CONTINUATION OF RECENT PRC EFFORTS TO MAKE FULLER USE OF HONG KONG'S OVERSEAS MARKETING EXPERTISE FOR PROMOTING PRC PRODUCTS. FIDELITY MERCANTILE IS A A FAIRLY LARGE IMPORT AND EXPORT FIRM THAT DEALS IN HONG KONG AS WELL AS PRC GOODS. IT IS LOCALLY-OWNED, AND ITS GENERAL MANAGER (ALSO DE FACTOR OWNER), Y.Y. WONG, IS A CAPABLE AND EXPERIENCED SUPPLIER OF THE US MARKET AND HAS LONG EXPERIENCE IN DEALING WITH THE PRC. FIDELITY MERCANTILE WOULD APPEAR TO MEET WELL PEKING'S NEED FOR MARKETING EXPERTISE, PARTICULARLY IN PRODUCT LINES SUCH AS CARPETS WITH REAL MARKET POTENTIAL.

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